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DEVELOPMENTS IN AUSTRALIAN EXPORTS - A LONGER TERM PERSPECTIVE

INTRODUCTION

Exporting activity has long been a significant element in the Australian economy. Foreign markets for Australian goods and services provide opportunities to increase national turnover, achieve economies of scale, diversify production and contribute to growth and employment. This article takes a longer-term perspective on some of the developments in Australia's exports, looking at the contribution to production, and noting the changing balance in both the commodities traded and the markets in which those commodities are bought.

MAIN FINDINGS

Over the past decade or so, Australia's exports of goods and services have been growing strongly, increasing their share of domestic production in both nominal and real terms. But the growth has not been even. Manufactured exports and services exports have both been rising faster than the rural and resource commodity exports. These changes continue a longer term pattern of increasing sophistication in the nature of Australia's exported goods and services, although the rural and resource commodities still accounted for more than half of all exports in 1997-98.

The destinations for Australia's exports have also changed. While exports once went primarily to our European customers, in 1997-98 three-quarters of our exports went to partner economies in the Asia Pacific Economic Cooperation (APEC) group.

THE EXPORTS SHARE OF DOMESTIC PRODUCTION

The exports share of Australia's gross domestic product has been generally rising over the past decade, after 30 years of relative stability. In the late 1940s and early 1950s the exports share of GDP (at current prices) was running at about 20%. It generally fell to about 15% in the late 1950s, remaining there until the mid 1980s. Since then the share has been rising, reaching 21% in 1997-98.

Most industrial countries have higher exports shares than Australia; only the United States (at about 12%), Japan (11%) and Greece (15%) have lower exports to GDP ratios than Australia. However, only five industrial countries (the United States, Canada, Finland, Spain and Sweden) have experienced growth in their exports share comparable to that achieved by Australia over the past 10 to 15 years.

Graph S7.1 shows the ratio of Australia's exports to the income-based measure of GDP (GDP(I)) over the 50 years to 1997-98. Some of the reasons for the growing exports share in recent years relate to the changing composition of exports, which is discussed below.



CHANGING COMPOSITION OF EXPORTS - EXPORTED COMMODITIES

Over the ten years to 1997-98, Australia's GDP(I) increased at an annual average rate of about 6.5%, while exports increased at a faster rate (8% per annum), raising the exports share in production. However, the contributions to the rise by the different broad commodity groupings within exports varied, as table S7.2 shows.

S7.2 RISING EXPORTS - 1987-88 to 1997-98

Category A	Average annual increase (compound) %	Exports levels 1997-98 \$b
Goods and services	8	114
Goods	8	88
Rural goods(a)	5	23
Manufactures	14	21
Non-rural resource commodities	9	42
Services	10	26

(a) The exports levels have been adjusted approximately for confidential sugar exports to allow inter-temporal comparisons.

Source: *Balance of Payments and International Investment Position, Australia (5302.0)*.

Services exports have been rising at a compound rate of 10% per annum over the past decade, faster than the rise in goods exports, and increasing the services share in total exports from 19% in 1987-88 to 22% in 1997-98. At one end of the spectrum, travel (which accounted for nearly half of all services exports in 1997-98) grew at 12% per annum over this period, with education-related travel rising at a compound rate of 21% per annum. At the other end of the spectrum, transportation services (accounting for a quarter of services exports) rose at 6% per annum. The

remaining other business and personal services, in aggregate, climbed at an annual rate of 12%. Over the past five years, many of the smaller business and personal services commodities have achieved rises at or above that for travel services. Exports of business services in insurance, finance, computing and information, trade related commissions and margins, legal and advertising have all risen faster than travel exports, as have personal and cultural services exports. Table 30.8 in the section shows exports under the main services exports categories for the past six years.

Manufactured goods exports (comprising machinery, transport equipment, and other manufactures) outperformed the rise in services exports, rising at an average rate of 14% per annum over the ten year period, but they came off a lower base and still contributed less than services to the total exports effort.

Rural goods now account for about as much as manufactures in total exports returns, and have shown the slowest rate of increase (5%) over the period since 1987-88. In the early 1960s, rural exports accounted for about two thirds of Australia's exports, but by 1969-70 that share had fallen to a little over 40%, and fell further during the 1970s and early 1980s. The rural goods share in exports has continued to decline, from just over 30% 15 years ago to be under 20% by 1997-98.

Non-rural resource commodities, now the largest of the broad export groupings, have risen at an annual rate of 9% over the past ten years. Gold has increased in line with the overall rise in this group in the last ten years. Gold exports have been affected in the past two years by both Reserve Bank of Australia gold sales (\$2.4b over 1996-97 and 1997-98) and the more recent increased import of gold, and its subsequent export after reprocessing, which followed the instability in Asian financial markets that commenced in late 1997. However, the average annual rate of increase in the past two years is not significantly different from that achieved in the previous eight years. Exports of gold had grown much more quickly in the early 1980s. Gold exports in 1987-88 were ten times the level exported five years earlier.

Goods exports by broad commodity, in current and constant price terms, are shown for the last six years in table 30.5 of the section.

In constant price terms (1989-90 base year), exports have also increased their share of GDP over the past decade, from 16% in 1987-88 to 24% in 1997-98.

One measure of price change in exports that can be used is the change in the implicit price deflator (IPD) observed for exports (that is, the ratio of current price exports to constant price exports, with the latter expressed in terms of 1989-90 prices). The broad level IPDs for goods and services are shown, for the past six years, in table 30.7. However, the IPD is not a pure price measure and reflects a combination of both price change and the changing composition of exports. Across the various exports commodities, the IPDs have behaved quite differently, in part reflecting differing price movements, but also the changing significance of the different components that make up the commodity aggregates. The IPD for total exports has risen by 10% in the past decade, with the goods IPD up 6% and the services IPD up 23%. At a more detailed level, however, the IPDs have varied quite markedly, from rises of over 60% for cereals to falls of nearly 40% for machinery exports.

On a fixed weight basis (excluding compositional change to leave only price effects) exports prices rose a little faster than implied by the IPDs, in total increasing by 12% over the past decade, with an 8% increase for goods and a 26% increase for services.

CHANGING COMPOSITION OF EXPORTS - AUSTRALIA'S EXPORTS MARKETS

As well as quite significant changes over the years in the goods and services that Australia exports, the destinations to which we export have also been changing. During the 1930s, Australia's export trade was dominated by the then traditional trading partners from Europe,

especially the United Kingdom, France and Germany. These countries took almost 60% of Australian exports. The importance of these countries has declined since then, and by 1996-97 they accounted for only 7% of Australia's total exports of goods and services. Countries in the Asia-Pacific region, on the other hand, had been relatively less important trading partners for Australia in the 1930s. For example, the United States took less than 4% of Australia's exports in the 1930s, while Japan took about 10%.

By 1996-97, Japan was taking \$19b (18%) of Australia's exports, and is Australia's largest market for both its goods and its services exports. Japan's share of exports has slipped back from its peak of 25% in 1991-92.

The United States took \$9b (8%) of Australia's exports of goods and services in 1996-97, and was our second largest export destination, followed closely by Korea at \$8b (8%). Goods exports to Korea overtook our exports to the United States in 1994-95 and kept in front for the next two years. However, the rapid falloff in exports to Korea in the second half of 1997-98, following the financial instability in the Asian region in late 1997, and some one-off effects that boosted gold exports to the United States in the second half of 1997-98, have pushed the United States ahead of Korea into second place as an export destination for our goods.

Graph S7.3 shows the changes over the decade to 1996-97 in the shares of Australia's goods exports taken by our major trading partners.



Source: *Balance of Payments and International Investment Position, Australia* (5363.0).

In services, the United States is still Australia's second largest market, close behind Japan and well ahead of Korea, although the gap is narrowing. Services exports to the United States were \$3.2b in 1996-97, two and a half times the level of a decade earlier, while services exports to Korea had increased to \$1.1b, more than 15 times the level in 1986-87.

Table S7.4 presents Australia's exports of goods and services to its major export destinations, and selected groupings of countries, for the ten years to 1996-97. More country detail on the services trade is provided in table 30.9, while merchandise goods exports by country are shown in table 30.24.

S7.4 AUSTRALIA'S EXPORTS OF GOODS AND SERVICES TO SELECTED MAJOR TRADING PARTNERS AND COUNTRY GROUPS

1986-87 \$m	1987-88 \$m	1988-89 \$m	1989-90 \$m	1990-91 \$m
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COUNTRIES

China, People's Republic of	1,671	1,359	1,492	1,492	1,617
Germany	1,374	1,409	1,479	1,422	1,423
Hong Kong	1,328	2,301	2,225	1,787	2,086
Indonesia	715	795	1,003	1,326	1,856
Japan	10,073	12,217	13,745	14,680	16,658
Korea, Republic of	1,579	1,891	2,326	2,847	3,435
Malaysia	887	996	1,094	1,305	1,432
New Zealand	2,653	3,337	3,494	3,830	3,825
Singapore	1,000	1,395	1,756	2,369	3,249
Taiwan	1,601	1,737	1,707	1,991	2,165
Thailand	321	445	607	754	870
United Kingdom	2,421	2,997	3,026	3,304	3,503
United States of America	5,437	6,354	6,182	7,100	8,190
All other countries	13,219	14,474	15,182	16,632	15,881
Total all countries	44,279	51,707	55,318	60,839	66,190

COUNTRY GROUPS(a)

APEC	23,812	28,684	31,663	35,755	41,183
ASEAN	3,319	4,040	5,019	6,434	8,043
EU	7,236	8,453	8,597	8,908	9,074
OECD	27,056	32,217	33,979	36,887	40,860

S7.4 AUSTRALIA'S EXPORTS OF GOODS AND SERVICES TO SELECTED MAJOR TRADING PARTNERS AND COUNTRY GROUPS - continued

1991-92 \$m	1992-93 \$m	1993-94 \$m	1994-95 \$m	1995-96 \$m	1996-97 \$m
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COUNTRIES

China, People's Republic of	1,659	2,540	2,930	3,365	4,189	3,989
Germany	1,561	1,501	1,619	1,709	1,762	1,694
Hong Kong	2,714	3,346	3,679	3,505	4,136	4,312
Indonesia	2,006	2,228	2,550	2,969	3,629	4,370
Japan	17,434	18,302	19,182	19,837	20,219	19,143
Korea, Republic of	3,626	4,367	5,281	6,130	7,783	8,285
Malaysia	1,606	1,794	2,400	2,734	3,077	3,156
New Zealand	3,994	4,544	5,213	6,080	7,066	7,801
Singapore	3,770	4,489	4,068	4,879	4,791	4,799
Taiwan	2,803	3,151	3,338	3,806	4,182	4,231
Thailand	1,050	1,494	1,671	2,076	2,316	2,200
United Kingdom	3,815	4,187	4,749	4,212	4,903	4,618
United States of America	7,259	7,104	7,497	7,074	7,645	8,767
All other countries	16,696	17,757	18,725	19,133	23,306	27,953
Total all countries	69,993	76,804	82,902	87,509	99,004	105,318

COUNTRY GROUPS(a)

APEC	49,683	55,539	61,625	66,411	73,513	75,913
ASEAN	9,135	10,825	11,690	13,787	15,446	16,312
EU	9,937	10,183	10,835	11,072	12,389	12,350
OECD	41,259	42,944	45,501	46,869	50,504	59,220

Source: Information Paper: Upgraded Balance of Payments and International Investment Position Statistics, Australia (5365.0).

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